

BEFORE INDEPENDENT HEARING COMMISSIONERS
IN THE WAIKATO REGION

I MUA NGĀ KAIKŌMIHANA WHAKAWĀ MOTUHAKE
WAIKATO

IN THE MATTER of the Resource Management Act 1991

AND

IN THE MATTER of the hearing of submissions on proposed Plan
Change 26 (residential intensification)
(‘PC26’) to the Operative Waipā District Plan
(‘WDP’)

STATEMENT OF PRIMARY EVIDENCE OF PHILIP MARK OSBORNE
ON BEHALF OF KĀINGA ORA - HOMES AND COMMUNITIES

(ECONOMICS)

6 APRIL 2023

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EXECUTIVE SUMMARY

- A. My name is full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland.
- B. This evidence addresses the relief sought by Kāinga Ora on proposed Plan Change 26 to the Waipa District Plan relating to the proposed building height standards within the Cambridge and Te Awamutu centres and the establishment of a High-Density Residential Zone in close proximity to the Cambridge centre.
- C. The enablement of intensive residential development is both directed by the National Policy Statement on Urban Development (“NPS UD”) and a fundamental aspect of urban form relating to economic efficiency, affordability, improved amenity and affordable infrastructure provision.
- D. The Kāinga Ora relief seeks:
- (a) An increase in the building height standard in the Cambridge centre from 14m to 24.5m
 - (b) An increase in the building height standard in the Te Awamutu centre from 14m to 24.5m
 - (c) The establishment of a High-Density Residential Zone (“HDRZ”) with a 22m building height standard around the Cambridge centre
- E. My assessment is that there is an extremely low propensity for high density residential development to occur within the Cambridge and Te Awamutu centres pursuant to the building height provisions in Plan Change 26 as notified. The following table summarises my conclusions regarding the extent to which high density residential would occur in Cambridge and Te Awamutu if the relief sought by Kāinga Ora is upheld:

Potential additional high-density residential provision under the Kāinga Ora Proposal

Capacity Overview		Theoretical Capacity	Feasible Capacity	Realisable Capacity
Cambridge	High Density	5,293	926	88
	Commercial	5,799	1,481	673
	Total	11,092	2,407	761
Te Awamutu	High Density	4,024	0	0
	Commercial	3,453	693	0
	Total	7,477	693	0

F. In summary:

- (a) The heights enabled in the relief sought by Kāinga Ora would result in a materially different position, with potential for high density demand to be met in the Cambridge centre as well a moderate level of high-density development potential within the proposed HDRZ sought around Cambridge.
- (b) While the provision of a 24.5m height limit in the Te Awamutu centre is unlikely to result in a significant level of high density development over the short to medium term, it does provide an opportunity for such development to occur while not resulting in any likely adverse economic outcomes.

G. Overall, the relief sought by Kāinga Ora, in relation to these heights and the HDRZ around Cambridge, represents an improved economic outcome and a greater propensity for the realisation of high density residential within the district and the Cambridge centre.

INTRODUCTION

1. My full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland.

Experience

2. My qualifications include Bachelor of Arts (History/Economics) (1994), Masters in Commerce (1997), a Masters in Planning Practice (2002)

from the University of Auckland and I have provisionally completed my doctoral thesis in developmental economics.

3. I have 20 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning. I also provide consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.
4. Property Economics has been involved in assessing commercially feasible and realisable residential development for a wide range of local governments (Auckland, Wellington Region, New Plymouth), central government (Kāinga Ora, MBIE, MHUDS) and private clients over a large number of local, territorial and regional economic environments.

Involvement in the Submission

5. I have been commissioned by Kāinga Ora-Homes and Communities ("**Kāinga Ora**") to prepare this statement of evidence to address economic matters raised in relation to the relief sought in Kāinga Ora's submissions to Waipa District Proposed Plan Change 26 ("**PC26**"). The Waipa District's Plan Change seeks to implement the NPS UD as well as the Medium Density Residential Standards ("**MDRS**").

Code of Conduct

6. I confirm that I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2023. I have complied with the Code of Conduct in preparing this evidence and agree to comply with it while giving evidence. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known

to me that might alter or detract from the opinions expressed in this evidence.

SCOPE OF EVIDENCE

7. My evidence will address the following:
 - (a) Outline the current Kāinga Ora relief sought.
 - (b) Identify the fundamental differences between PC26 and the Kāinga Ora position.
 - (c) Identify the potential market response and the appropriateness of the Kāinga Ora position.
 - (d) The benefits of Kāinga Ora's relief.
8. In preparing my evidence, I have read Waipa District's PC26 the s32 RMA evaluation supporting the plan change, and the economic evidence of Susan Fairgray for Waipa District.

THE KĀINGA ORA SUBMISSION

9. The aspects of the Kāinga Ora submission considered in this evidence include:
 - (a) The extension of the Cambridge Town Centre permitted building height from 14m to 24.5m
 - (b) The extension of the Te Awamutu Town Centre permitted building height to 24.5m
 - (c) The establishment of a HDRZ around Cambridge Town Centre at 22m
10. In relation to the Kāinga Ora submission it is my understanding that Kāinga Ora is no longer seeking a HDRZ around Te Awamutu Town Centre and has reduced the zone extent for HDRZ around Cambridge.

11. From an economic perspective I strongly support the overall direction of the PC26 which seeks to consolidate land use activities within a compact urban form, focussed in and around centres, as well as the provision of sufficient residential capacity to support and efficiently facilitate growth in the district. This approach has a number of economic advantages:
- (a) A compact urban form reduces the marginal cost of construction in terms of infrastructure such as urban roading and wastewater and water supply networks.
 - (b) A compact urban reduces the need for and cost of travel for residents to access employment, education, healthcare and services. That is likely to generate savings in resource use (e.g.: fuel or electricity) for trips that use private vehicles but also increases the likelihood of active transport modes (e.g.: walking or cycling).
 - (c) Intensification within and around centres reinforces travel efficiency. It increases the accessibility of employment and services and further improves the efficiency of the public transport network.
 - (d) Improvement of land use efficiencies with regard to the extent of land required to meet demand, reducing the average site cost. This is more likely to result in lower priced residential options.
 - (e) Increasing the diversity, viability, and comparative advantage of commercial centres.
12. The key point of difference between the submission position of Kāinga Ora and that of the Waipa District Council is the extent to which this intensified residential development is enabled. From an economic viewpoint this relates to the point at which a balance should be struck between the potential costs associated with residential intensification and the economic benefits generated by it. That balance has implications for the locations in which intensification should be

focused and the extent of the zones themselves. It is also important to note that the MDRS has inherently altered this relative position and the competitive differential required to direct residential development efficiently (i.e.: into and around centres) rather than simply to provide for sufficient residential development capacity.

13. The MDRS and the higher density residential sought through the NPS UD seek to enable residential development capacity that, in turn, allows the market to offer greater choice in terms of the typology and locations for intensified residential development.
14. There are key aspects of the residential provisions, zone extents and overlays adopted in Waipa's PC26 that are likely to limit the extent to which they provide for a range of housing densities within economically efficient locations for the purposes of this evidential assessment they include:
 - (a) Both Cambridge and Te Awamutu centre zones provide for a maximum built height of 14m.
 - (b) While the implementation of the MDRS provides for greater medium density provision across residential zones, PC26 does not provide for a high-density residential choice outside of the Cambridge and Te Awamutu centres.

CAMBRIDGE AND TE AWAMUTU GROWTH

15. The centres of Cambridge and Te Awamutu (along with the airport zoned business land) represent the most significant commercial areas for the district with the majority of zoned commercial business land as well as commercial activities. As such the facilitation of high-density residential development, at a level seen through the proposed Kāinga Ora heights would not be at odds with the centres as a whole.
16. The areas associated with these centres are expected to see significant residential growth (between 32% -62%) over the long run (30-year period). Given the location and role of these centres it is expected that both will experience considerable growth in terms of

commercial, retail and community services activities, driven by both the service requirements of a growing population as well as a likely increase in the ability for the centres to retain activity through increased self-sufficiency.

17. Table 1 highlights the current and expected future (longterm) employment¹ activities expected to be accommodated within each of these centres. Evident here is the significant role the Cambridge centre plays in the district economy with, currently, 40% of all employment located within the centre. This is expected to continue over the longterm with employment growing by nearly 60% over the next 30 years. Te Awamutu too experiences substantial growth growing the level of employment accommodated within the centre by nearly 100% over the same period.

Table 1: District and centre employment growth estimates (EC's 2051)

		2000	2022	2051
Waipa District		12,100	22,000	32,400
Cambridge Centre	Nominal	4,195	8,755	13,932
	Proportion	35%	40%	43%
	Estimated Growth			59%
Te Awamutu	Nominal	1,842	2,460	4,860
	Proportion	15%	11%	15%
	Estimated Growth			98%

18. Table 2, below, identifies the projected business floorspace growth from the Future Proof HBA² for both areas. As identified with the majority of zoned land within the centres in each of these areas it is expected that the bulk of this demand will locate with the Cambridge and Te Awamutu centres.
19. Overall, it can be expected that the Cambridge centre would require an additional 50,000sqm of business floorspace over the next 30 years, while Te Awamutu could require approximately 40,000sqm of additional floorspace³.

¹ Based on Statistics New Zealand Employment Count (ECs)

² Business Development Capacity Assessment 2021 Future Proof Partners: Hamilton City, Waikato District, Waipā District

³ Based on current centre trends

Table 2: Projected Commercial and Retail Floorspace requirements in Cambridge and Te Awamutu

Area	Demand Floorspace (2051)	SQM
Cambridge	Retail	19,400
	Commercial	48,000
Te Awamutu	Retail	14,800
	Commercial	45,000

20. The additional level of future activity expected to be accommodated within these centres indicates strong growth and a subsequent requirement for future built form development. This demand will place increased pressure on the existing provision of floorspace. The potential for the district to retain this demand will ultimately be centred on the ability for the market to feasibly develop additional appropriate space. Mr Campbell will discuss the implications of current and future centre sizes with regard to Policy 3(d) of the NPS-UD.

CAMBRIDGE AND TE AWAMUTU CENTRE ZONES

21. From an economic viewpoint, the intensity of residential land use enabled within and immediately adjacent to centres is a crucial tool in enabling residential development to achieve greater degrees of efficiency and certainty in terms of public and private investment. The level of flexibility and capacity indicated by zoning also impacts upon housing fundamentals such as choice and affordability.
22. I understand that a key consideration in terms of the NPS UD is the utilisation of appropriate land around centres for intensified residential development to provide efficient access to services (and opportunities). In considering this, it is important to understand what, if any, impact the Plan Change 26 to the Waipa District Plan will have on them. As identified above, this goes beyond the act of applying a zone to an area of land and must consider the potential market response and therefore the practical outcome of applying higher density zones.

23. Kāinga Ora's submission allows for residential development within both centres at a 24.5m building height. This represents the fundamental difference between the Councils proposed 14m height limit and that sought by Kāinga Ora. The potential impact on the two centres is materially different given the underlying market fundamentals. Cambridge offers a higher degree of amenity that is reflected in higher land values. These values are likely to contribute to future feasibilities. As part of the assessment of the Kāinga Ora submission Property Economics has undertaken modelling of the impacts a differential in enabled height would make on likely feasible and realisable capacity. It indicated a high degree of sensitivity for feasible rates give changing heights.
24. Table 3 illustrates the high-level assessment. It shows that the current height of 14m (approximately 4 storeys) in the Town Centres is unlikely to result in any material development of high density residential within the Cambridge or Te Awamutu centre. It also illustrates the relationship between the enabled height and the level of likely development within the Cambridge and Te Awamutu centres.
25. This impact on realisation is based on a number of factors. The first relates to the underlying land values and the need for the market to achieve a greater uplift in land value relative to the built form floorspace. As development height increases the relative cost of land falls and the return increases, in the case of Cambridge a higher increase in relativity between these factors is required to cover such costs as existing improvement (existing buildings) loss at a level that is competitive with other development options.

Table 3: HIGH DENSITY FEASIBILITY AND REALISATION⁴ RATES BY HEIGHT

Area	Zone	Storeys / Heights	Theoretical	Feasible Capacity	Feasibility Rate	Realisable	Realisable Rate
Cambridge	High Density	3 / 11m	3,296	236	7%	0	0%
		4 / 14m	4,414	434	10%	0	0%
		5 / 18m	5,153	670	13%	0	0%
		6 / 21.5m	5,293	926	17%	88	2%
	Town Centre	3 / 11m	2,455	314	13%	0	0%
		4 / 14m	3,293	485	15%	0	0%
		5 / 18m	3,994	644	16%	259	6%
6 / 21.5m		4,500	906	20%	449	10%	
7 / 24.5m +	5,799	1,066	18%	673	12%		
Te Awamutu	High Density	3 / 11m	1,221	2,229	0%	0	0%
		4 / 14m	1,643	2,989	0%	0	0%
		5 / 18m	1,970	3,579	0%	0	0%
		6 / 21.5m	2,222	4,024	0%	0	0%
	Town Centre	3 / 11m	1,462	26	2%	0	0%
		4 / 14m	1,960	242	12%	0	0%
		5 / 18m	2,450	414	17%	0	0%
6 / 21.5m		2,900	593	20%	0	0%	
7 / 24.5m +	3,453	693	20%	0	0%		

26. It is clear from this assessment that the proposed Kāinga Ora position will enable the market to provide greater levels of high-density residential development within the Cambridge centre. This improvement is both necessary to realise the economic efficiencies of intensified development as well as providing for realistic choice and demand preferences both now and over the longterm. It is important to note that there is unlikely to be any material⁵ high-density development under the 14m current identified in the Plan Change.
27. While the theoretical or 'enabled' capacity resulting from the proposed Kāinga Ora height is substantial the market reality is that a very small proportion of this, and in fact feasible capacity is likely to be realised within the market. It is also important to note that recent changes (falling property values and rising construction costs) are likely to reduce this realisation rate still further
28. Council's evidence suggests that under current development patterns there is an estimated longterm demand for approximately 250

⁴ Typically, feasible residential capacity addresses market and financial constraints and illustrates the level of capacity that exhibit a viable profit margin. Realisable development reflects the additional risks associated with different typologies in identified locations along with the likely market motivations extending beyond simple financials.

⁵ When addressing issues relating to a market as a whole there are always anomalies that may result in some development occurring

additional higher density dwellings within the district⁶. Although this typology component is based on current development trends, with future patterns potentially resulting in a greater level of high-density development, it is clear that a 14m height restriction in the Cambridge centre will significantly hinder the ability for the market to meet this need. Additionally, the potential for high density residential product is likely to sit somewhere between the 250 to 1,200 dwellings (identified as a Hamilton component rate) identified in Council's economic evidence.

29. Table 1 above also assesses the potential high density residential capacity within the Te Awamutu centre. There are material differences between the two Waipa centres, with lower current levels of amenity within Te Awamutu reflected in the lower land values. These values are a critical factor in the feasibility and realisation rates driving high density development. It is fundamental for high density development feasibility that land values are weighed against lost improvement value (pulling down existing buildings) as well as contributing to profitability through the increased land use efficiencies.
30. Even with the material increase in height proposed by Kāinga Ora the potential for high density development within the Te Awamutu centre is extremely low.
31. In assessing the economic appropriateness of the heights proposed in the two centres there are a number of other factors that require consideration. Firstly, the potential for economic costs. As identified above there are a number of economic benefits attributable to more intensified residential development, additionally, there is the potential for some economic costs. When considering locational options for high density residential development it is important that the appropriateness of the location is considered. With a finite level of demand high density development potential in inappropriate locations can increase competition redistributing demand to less

⁶ Fairgray, page 26 11.8 (a)

efficient locations. In the case of Cambridge and Te Awamutu these represent the most appropriate locations within the district and therefore additional capacity will not result in his potential economic cost.

32. The second issue relates to a 'crowding out' of economic benefits associated with density. This is typically through congestion where high levels of concentrated activity results in pressures on infrastructure slowly economic activity. In the case of both Cambridge and Te Awamutu this level of centralised activity is highly unlikely.
33. The heights proposed by Kāinga Ora are likely to result in different outcomes for each centre over, at least the short to medium terms. For Cambridge the increase in height is fundamental for the realisation of high density residential development within Waipa at all, with lower heights significantly restricting any such development. Current market factors in Te Awamutu, however, would suggest that even with the increase in heights the potential for any material development of high density residential is unlikely in the foreseeable future. However, the increase in height provision within this centre is unlikely to result in any additional economic costs with its introduction at least providing future direction to the market.

THE HIGH-DENSITY ZONE

34. It is firstly prudent to note that the current Kāinga Ora proposal does not seek a high-density residential zone located around the Te Awamutu centre. I support the removal of this proposed zone. As identified above there is minimal realisable high-density capacity within the Te Awamutu centre, as such providing for additional locational choice within the local market is likely to simply perpetuate this position, with a HDRZ simply competing with any potential within the centre. Although an economic argument could be established that any intensified residential development near the Te Awamutu centre could contribute to its vitality and vibrancy, it is important that the additional extent and provision of zones do not materially impact upon

competitive efficient locations which exhibit lower propensities for development.

35. The Kāinga Ora submission currently seeks a HDRZ around the Cambridge centre with a 400 - 600m walkable catchment and a maximum height of 22m. Once again Table 1 illustrates the level of realisable residential development within this reduced area. It indicates that while the zone enables over 5,200 high density dwellings only 88 are likely to be realisable⁷.
36. As outlined above the identification of a HDRZ around Cambridge, at the extent now sought is unlikely to provide for either a material number of high-density developments or a significant level of competition for residential development within the Cambridge centre. What this zone does achieve is increase choice (the ability for the market to provide for households who would chose a higher density residential product but not in centre), it signals to the market the longer term direction for the accommodation of district growth. This signal is important to the market as the potential for longer term high density development is often impacted through lower density developments occurring and subsequently undermining longer term feasibilities.
37. The evidence of Susan Fairgray addresses this point for Council in sections 11.2 to 11.13 of her evidence. For the most part I agree with Ms Fairgray's position that inappropriate development capacity extents can compete with more appropriate locations and 'redirect' demand to these less efficient locations. I agree that the extent of the HDRZ in the original position of Kāinga Ora were too large. As result of this Kāinga Ora have proposed a much-reduced HDRZ extent around Cambridge and no HDRZ around Te Awamutu. As identified in the modelling of Property Economics it is likely that this extent of zone in Cambridge is unlikely to result in a high level of competing product (especially when considering competing typologies). The Cambridge HDRZ offers a limited alternative to the 'in-centre' high density

⁷ It is also important to note that this modelled assessment does not include other competing typologies which may exhibit greater levels of profitability.

residential capacity potential and as such could be more attractive to smaller parts of the market, in turn impacting upon the Waipa districts market preference and acceptance of this product type.

ECONOMIC CONCLUSION

38. The relief current sought by Kāinga Ora includes:
- (a) Increase in permitted height base in the Cambridge centre from 14m to 24.5m
 - (b) Increase in permitted height base in the Te Awamutu centre from 14m to 24.5m
 - (c) Establishment of a High-Density Residential Zone (HDRZ) at 22m around the Cambridge centre
39. With the introduction of the MDRS these increases in height send a strong signal to the market encouraging development in efficient and economically effective locations.
40. Given the current property market conditions experienced in Waipa the Kāinga Ora relief is also likely to significantly improve the likelihood of residential development being undertaken within Cambridge and Te Awamutu (although the latter is likely to exhibit only marginal development potential overall). These feasible and realisable levels of development potential are summarised in Table 3⁸.

Table 4: Potential additional provision under the Kāinga Ora Proposal

Capacity Overview		Theoretical Capacity	Feasible Capacity	Realisable Capacity
Cambridge	High Density	5,293	926	88
	Commercial	5,799	1,481	673
	Total	11,092	2,407	761
Te Awamutu	High Density	4,024	0	0
	Commercial	3,453	693	0
	Total	7,477	693	0

⁸ It is important to note that while this represent 'profitable' or 'feasible' development potential, it has not been compared to lower density (e.g 2 storey) options that may reduce this overall high density development capacity.

41. With long term district demand for higher density product lying somewhere between 250 and, at the very upper level 1,200 units it is unlikely that any material demand within this range will be met by the development opportunities at a 14m height limit.
42. While most of this demand is likely to be met, at least over the short to medium term, in the Cambridge centre, the provision of a HDRZ within the area identified in the Kāinga Ora relief, provides for additional choice within the market while not materially undermining the competitiveness of the Cambridge centre as a focus for development. This limited affect is highlight in Table 3 with only a limited offer likely to be developed within this area.
43. Additionally, the provision of a 24.5m height limit in the Te Awamutu centre is unlikely to result in a significant level of high density development but does enable the opportunity while not resulting in any likely adverse economic outcomes.
44. Overall, the relief sought by Kāinga Ora, in relation to these heights and the HDRZ around Cambridge, represent an improve economic outcome and a greater propensity for the realisation of high density residential within the district and within the Cambridge centre.

6th April 2023

Philip Mark Osborne